

VZCZCXRO9444
RR RUEHDE RUEHDIR
DE RUEHAD #4290 3191201
ZNR UUUUU ZZH
R 151201Z NOV 06
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 7686
INFO RUEHDE/AMCONSUL DUBAI 6631
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS ABU DHABI 004290

SIPDIS

SIPDIS

DEPT FOR NEA/ARP, EB/TPP/BTA
TREASURY FOR DAS SAEED AND OFFICE OF TAX POLICY
USDOC FOR 1000/ITA/OFFICE OF THE UNDERSECRETARY/FLAVIN
USDOC FOR 3130/ITA/US&FCS/DAS FOR OIO/DHARRIS
USDOC FOR 4000/ITA/MAC/OFFICE OF THE ASSISTANT SECRETARY/DBOHIGIAN

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [AE](#)

SUBJECT: US BUSINESS IN UAE HURT BY HIGH HOUSING COST AND U.S. TAX
LAW CHANGES

1. U.S. businesses in Abu Dhabi and Dubai have approached both the Embassy and Consulate General to express concern about the negative impact of recent changes in the U.S. tax code on the amount of housing assistance that can be excluded from taxable income. Under the revised regulations, U.S. residents of certain high cost cities are able to exclude more of their housing assistance from taxes, however the Department of the Treasury did not include either Abu Dhabi or Dubai in the list of high cost cities. The Department of Treasury drew its list from the Department of State's report on housing allowances for employees ranked at above the FS 2/GS-14 level living in the UAE with families. Because all USG personnel in the UAE are in government furnished quarters, neither Abu Dhabi nor Dubai are included in this report. Except for Kuwait and Bahrain, none of the countries in the GCC are included.

2. The UAE is a major export market for U.S. goods (the largest in the Middle East and North Africa in the first half of 2006), with almost six billion dollars in U.S. exports in the first half of 2006. There are approximately 700 U.S. companies physically present in the UAE and over 20,000 Americans resident here. According to U.S. businesses, the high cost of housing in the UAE is making it increasingly difficult to staff operations here with U.S. citizens. The changes in the tax law and forecasted sharp increases in tax liability for American citizens living in the UAE will exacerbate the problem. Anecdotally, we have already heard of Americans either leaving the UAE or sending their families home, due to the high and increasing cost of housing. Housing costs in both Abu Dhabi and Dubai have increased substantially in the last several years. In September, Standard Chartered Bank estimated that rents in Dubai increased by 22.5% in 2005 and about 16% in 2006. Standard Chartered's estimate of rent increases in Abu Dhabi was 36% for 2006.

3. Because the current methodology does not capture the cost of housing for expatriates in the UAE and because we are concerned about the impact on U.S. residents here and on U.S. business competitiveness, we have prepared the following data for Department and Treasury's consideration in revising the exclusions to more accurately reflect costs in the UAE. Embassy selected all leased housing for USG officials at grade FS-2 (or equivalent) and above, living with families in Dubai and Abu Dhabi. (Note: These figures exclude the Ambassador's residence. End Note.)

Abu Dhabi - 2006

Number of Houses - 28 villas and 1 apartment

High Price - \$81,684

Low Price - \$43,565
Mean - \$53,874
Standard Deviation - \$ 7,143

Dubai

Number of Houses - 10 villas

High Price - \$68,064
Low Price - \$40,839
Mean - \$51,776
Standard Deviation - \$ 7,780
Sison